KPMG

Financial Statements of

FIRST NATIONS FUND

Year ended March 31, 2003

104-04172/

KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
Saskatoon SK S7K 1M8

Telephone (306) 934-6200
Telefax (306) 934-6233
www.kpmg.ca

AUDITORS' REPORT TO THE TRUST BENEFICIARIES

We have audited the balance sheet of First Nations Fund as at March 31, 2003 and the statements of revenue and expenditures and unrestricted surplus and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
June 11, 2003

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

FIRST NATIONS FUND

Balance Sheet

March 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Cash	$ 1,521,302	$ 121,735
Accounts receivable	15	114
	$ 1,521,317	$ 121,849
Liabilities and Unrestricted Surplus		
Current liabilities:		
Payable to First Nations and others	$ 1,521,317	$ 121,849
Contingency (note 4)		
	$ 1,521,317	$ 121,849

See accompanying notes to financial statements.

On behalf of the Trustees:

Trustee

Trustee

FIRST NATIONS FUND

Statement of Revenue and Expenditures and Unrestricted Surplus

Year ended March 31, 2003, with comparative figures for 2002

	2003	2002
Revenue:		
Gaming revenue	$ 19,696,725	$ 14,371,618
Recovery of funds withheld (note 2)	35,000	-
Interest	459	1,804
	19,732,184	14,373,422
Expenditures:		
Allocations under gaming agreements:		
First Nations Addictions Rehabilitation Foundation	1,500,000	944,350
FSIN - jurisdictional discussions	250,000	-
Fund distributions:		
Payments to First Nations	17,407,328	12,494,670
Bear Claw Community Development Corporation (note 3(a))	224,856	-
White Bear gaming agreement development costs (note 3(b))	100,000	100,000
Saskatchewan First Nations Veterans Association (note 3(c))	150,000	150,000
Painted Hand Community Development Corporation	-	584,402
Trust administration	100,000	100,000
	19,732,184	14,373,422
Excess of revenue over expenditures	-	-
Unrestricted surplus, beginning of year	-	-
Unrestricted surplus, end of year	$ -	$ -

See accompanying notes to financial statements.

FIRST NATIONS FUND

Statement of Cash Flows

Year ended March 31, 2003, with comparative figures for 2002

	2003	2002
Cash flows from (used in):		
Operations:		
Change in non-cash operating working capital:		
Accounts receivable	$ 99	$ (114)
Payable to First Nations and others	1,399,468	106,360
	1,399,567	106,246
Increase in cash	1,399,567	106,246
Cash, beginning of year	121,735	15,489
Cash, end of year	$ 1,521,302	$ 121,735

See accompanying notes to financial statements.

FIRST NATIONS FUND

Notes to Financial Statements

Year ended March 31, 2003

General Information:

The First Nations Fund (the "Fund") was established to administer and disburse First Nations' share of funds earned through gaming activities.

Pursuant to the 1994 Casino Gaming Agreement between the Federation of Saskatchewan Indians, Inc. ("FSIN") and the Province of Saskatchewan (the "Province") and Section 17 of *The Saskatchewan Gaming Corporation Act*, the Fund is to receive 25% of the net profits of the casinos operated by the Saskatchewan Gaming Corporation ("SGC").

Pursuant to the 1995 Agreement between the FSIN and the Province (the "1995 Agreement"), the Fund is to receive 50% of the net profits generated by casinos operated by Saskatchewan Indian Gaming Authority Inc. ("SIGA"). Under the 1995 Agreement and an amendment to the 1995 Agreement effective April 1, 1998, when the cumulative total of the net profits from the SIGA casinos distributed to the Fund exceeds the cumulative total amount paid to the Fund from the profits of the SGC casino, the Fund shall only be entitled to 37.5% of the net profits from the SIGA casinos (the "Flip Clause").

The 1995 Agreement provides for the establishment of the First Nations Addictions Rehabilitation Foundation ("FNARF") for the purpose of providing gaming addictions rehabilitation and prevention services for First Nations people. The operations of FNARF are to be funded from gaming revenue distributed by the Province to the Fund.

The 1995 Agreement expired on March 31, 2001 but was extended several times until a new agreement was signed on June 11, 2002 (the "2002 Agreement"). Under the 2002 Agreement, the Fund is to receive 37.5% of the net profits generated by casinos operated by SIGA, after allocations of $1.5 million to FNARF and $250,000 to the FSIN for its participation in jurisdictional discussions held in accordance with section 2.1 of the 2002 Agreement.

The Fund is administered by a Board of Trustees. The FSIN, in accordance with the First Nations Gaming Act, provides a list of recommended trustees to the Government of Saskatchewan. The Government of Saskatchewan uses that list to appoint trustees to the Fund in accordance with *The Saskatchewan Gaming Corporation Act*.

General Information (continued):

The Saskatchewan Gaming Corporation Act establishes that the Trustees may make payments from the Fund for the following purposes related to Indians and Indian Bands in Saskatchewan:

- economic development
- social development
- justice initiatives
- educational development
- recreational facilities operation and development
- senior and youth programs
- cultural development
- community infrastructure development and maintenance
- health initiatives, and
- any other community development and/or project.

The Trustees shall make payments from the Fund on a fair and equitable basis in accordance with guidelines approved by the FSIN Chiefs-in-Assembly. The Trustees may also disburse funds identified for charitable purposes to First Nations charities.

1. Significant accounting policies:

(a) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenditures during the reporting period. Actual results could differ from these estimates.

1. **Significant accounting policies (continued):**

   (b) Gaming revenues:

   Gaming revenues are recorded when received from the Province's General Revenue Fund. Distributions of gaming revenue are made to the Fund in quarterly installments based on estimates of net profits at the SIGA and SGC casinos. Upon completion of the fiscal years of the SIGA and SGC casinos, a final distribution is made to the Fund upon determination and allocation by the Province and recorded as gaming revenue.

   During 2000, Saskatchewan Liquor and Gaming Authority ("SLGA") determined that certain past expenditures of SIGA were not considered reasonable nor were they approved budget expenditures. The Province's share of these expenditures was to be recovered from the Fund pursuant to decisions made by the Province. Commencing with the fourth quarter of the year ending March 31, 2001, $169,908 per quarter for eight consecutive quarters for a total of $1,359,264 was to be withheld by the Province from distributions made to the Fund. The final repayment was withheld from the fund in December 2002 and at March 31, 2003, there were no further amounts due to be with held from the fund.

   (c) Payments to First Nations:

   Payments to First Nations are made based on guidelines approved by the FSIN Chiefs-in-Assembly.

2. **Recovery of funds withheld:**

   In April, 2002, the Fund received $35,000 from SIGA representing the proceeds from the sale of an asset. SIGA's expenditure on this asset was previously deemed inappropriate by SLGA and was part of the amount withheld from the Fund. The proceeds from the ultimate sale of this asset were repaid to the Fund.

3. Approved resolutions:

The FSIN Chiefs-in-Assembly have approved the following resolutions and so directed the trustees of the Fund as follows:

(a) Monies designated for the Bear Claw Community Development Corporation in the amount of $224,856 are being held in trust and are included in accounts payable until the proper incorporation documents and necessary approvals by SLGA are received.

(b) Compensation to the White Bear First Nation for the historical gaming costs related to planning and development of the Bear Claw Casino in the amount of $300,000 to be paid over a period of three years commencing in the 2001 fiscal year. These funds were paid as the White Bear First Nation was the initial First Nation that undertook gaming activities and their related costs as a form of economic development. The FSIN believes these actions initially benefited the White Bear First Nation and ultimately resulted in the FSIN Saskatchewan gaming agreements that now benefit all First Nations in the region. The final payment of $100,000 was made in fiscal 2003.

(c) Payment of $150,000 is to be made to the Saskatchewan First Nations Veterans Association ("SFNVA").These funds are to be used by the SFNVA to support the ongoing work required to ensure that First Nations Veterans receive adequate compensation for service to their country and to assist with senior and cultural programs that recognize and honour First Nations Veterans.

4. Flip clause contingency:

Disagreement exists between the FSIN and the Province regarding interpretation and calculations pursuant to the 1995 Agreement and the amendment to the 1995 Agreement as they relate to distribution of gaming revenue to the Fund. Any increase in distribution to the Fund related to the above disagreement will be accounted for in the period of resolution of the disagreement and receipt of amounts by the Fund.

5. Related party transactions:

Related parties to the Fund include the FSIN and First Nations in the Saskatchewan region and the Province of Saskatchewan. FNARF and SFNVA are under the direct jurisdiction of the FSIN. In addition, the FSIN provides administrative services to the Fund at an amount agreed between the parties. Occasionally cheques are distributed to Tribal Councils on behalf of their member First Nation. Other transactions with related parties are disclosed in the financial statements and notes.